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BEFORE THE ARIZONA CORPORATION COMMISSION

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MIKE GLEASON, CHAIRMAN

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IN THE MATTER OF THE REVIEW AND
POSSIBLE REVISION OF ARIZONA
UNIVERSAL SERVICE FUND RULES, ARTICLE
12 OF THE ARIZONA ADMINISTRATIVE
CODE.

Docket No. RT-00000H-97-0137

IN THE MATTER OF THE INVESTIGATION OF
THE COST OF TELECOMMUNICATIONS
ACCESS

Docket No. T-00000D-00-0672

MCLEODUSA'S STATEMENT ON ISSUES

Pursuant to the August 21, 2008, Procedural Order, McLeodUSA Telecommunications Services, Inc. ("McLeodUSA") submits its recommendations on certain initial issues that were identified during industry meetings related to this docket.

OVERVIEW

During the course of industry meetings concerning this docket, ALECA compiled a list of ten issues that it believed needed to be addressed. It also became clear during those meetings that it would not be possible to arrive at any sort of consensus on the key issues in the docket. The parties agreed that each interested party would submit its own position on the ten issues identified by ALECA and also would identify any additional issues that it believed should be addressed.

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MCLEODUSA'S POSITION ON ISSUES

A. ALECA's Issue List.

1. Which carriers' access rates should be the subject of this proceeding? Rural ILECs only? CLECs too?

McLeodUSA is unsure that any access rates should be the subject of a proceeding, particularly given the pendency of certain FCC proceedings that may impact access rates in Arizona (Missoula Inter-carrier Compensation Reform Plan, ,CC Docket No. 01-92 and AT&T Petition for Interim Declaratory Ruling and Limited Waivers Regarding Access Charges and the "ESP Exemption", WC Docket No. 08-152). However, if the proceeding goes forward, then it makes sense to address the Rural ILEC access rate levels before addressing CLEC access rates. The issues concerning Rural ILEC rates are somewhat different than the issues concerning CLEC rates. Moreover, most CLEC access rates are relatively modest by comparison to several Rural ILEC access rates.

2. What access rate level and structure should be targeted? Rather than a target shouldn't it be based upon cost and economic and competitive factors? Interstate? Qwest's current intrastate access rate level? Elimination of the CCL?

All access rates should be cost based on a forward looking cost basis. That does not mean that the Commission cannot adopt benchmark safe harbor rate levels, but in doing so, the Commission should set the safe harbor for entities using an appropriate proxy. Given their relative scope and scale, the RBOC is not a valid proxy for any CLEC. In addition, each company should be allowed to select its own access rate structure. Access rate design should reflect how a LEC incurs costs to provide access services. That means that LECs with divergent network configurations should probably have divergent rate structures. Accordingly, mandating that a CLEC mirror an ILEC access rate structure makes it more difficult for a CLEC to accurately build rates appropriate for its network.

- 1 **3. How much of access cost recovery, if any, should be shifted to end users? How**
2 **would that be done and what would be the effects on business users as well as**
3 **residential users? What showing should be required for such a shift? What**
4 **should be the role of "benchmark" rates, and how should benchmarks be set?**

5 McLeodUSA does not agree that cost recovery for access services should be shifted to end
6 users. End users are not the cost causers when it comes to access services. IXC's are the cost
7 causers by their requirement of needing access to end users to originate and terminate long
8 distance calls. Thus, basic economic principles dictate that IXC's pay the costs required to gain
9 access.

- 10 **4. How much of access cost recovery, if any, should be shifted to the AUSF?**
11 **What showing should be required for such a shift?**

12 McLeodUSA does not support shifting cost recovery for access services to the USF.
13 Indeed, shifting cost recovery to the USF would be contrary to the goal of a USF fund of ensuring
14 connectivity to the PSTN. All LECs that have pricing flexibility should not be able to use a USF
15 fund as a revenue replacement mechanism. This is especially true if access to USF funds
16 continues to be limited to eligible telecommunications carriers ("ETCs").

- 17 **5. Which carriers should be eligible for AUSF support?**

18 Only LECs that do not have pricing flexibility and that serve truly rural markets.

- 19 **6. How long should a transition period be, if any?**

20 Assuming there is access reform, the Commission should acknowledge that all LECs will
21 have to adjust their business plan to account for declining access revenues. However, it is
22 unquestionable that CLECs will require a longer period to adjust their business plans due to the
23 nature of their existing customer base. Virtually all facilities-based CLECs primarily provide
24 services to business customers under contractual arrangements. McLeodUSA has service
25 agreements with virtually 100% of its existing business customers. Our average service agreement
26 is 4.2 years. Due to having prices locked in under such agreements, McLeodUSA, and likely other
27 CLECs, cannot offset declining access revenue by shifting cost recovery to end users until such
28 time as its existing base of current service agreements expires and new agreements can be

1 modified. In contrast, ILECs typically realize a much greater percentage of their revenues under
2 month to month arrangements than CLECs. This enables ILECs to adjust their effective rate much
3 faster. Therefore, at a minimum, a transition period should be at least five to seven years, and no
4 changes should be instituted until no earlier than three years out from whenever a final rule or
5 ruling becomes effective..

6 **7. What should be supported by the AUSF? Access replacement only? High cost**
7 **loops? Line extensions? Centralized administration and automatic**
8 **enrollment for Lifeline and Link-Up?**

9 AUSF should primarily direct funds to subsidizing high cost loops. As previously noted,
10 USF funds should not be used as a revenue replacement for declining access rates.

11 **8. What should be the basis of AUSF contributions and what should be the**
12 **structure of any AUSF surcharge(s)?**

13 AUSF contributions should be structured to follow whatever method is used for the federal
14 USF to ensure that customers are assessment twice on the same revenue.

15 **9. Other substantive issues?**


16 Other than the issue of whether this docket should be suspended pending resolution of the
17 FCC dockets that may impact the issues in this docket, McLeodUSA does not take a position at
18 this time on other substantive issues that should be addressed at this time.

19 **10. How is the best way to proceed resolving the foregoing issues?**

20 McLeodUSA believes that this docket should be suspended pending resolution of the FCC
21 dockets that may impact the issues in this docket.

22 RESPECTFULLY SUBMITTED this 7th day of October 2008.

23 **McLeodUSA Telecommunications Services, Inc.**

24 By 
25 Michael W. Patten
26 Roshka DeWulf & Patten, PLC
27 400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004
(602) 256-6100

1 ORIGINAL and 15 COPIES of the
2 foregoing filed this 7th day of
October 2008 with:

3 Docket Control
4 ARIZONA CORPORATION COMMISSION
5 1200 West Washington Street
Phoenix, Arizona 85007

6
7 COPIES of the foregoing mailed/
8 emailed this 7th day of October 2008 to:

9 Dan Pozefsky
10 Residential Utilities Consumer Office
11 1110 West Washington, Suite 220
Phoenix, Arizona 85007
dpozefsky@azruco.gov

12 Norm Curtright
13 Qwest Corporation
14 20 East Thomas Road, 16th Floor
Phoenix, Arizona 85012

15 Reed Peterson
16 Qwest Corporation
17 20 East Thomas Road
18 16th Floor
Phoenix, Arizona 85012

19 Craig A. Marks
20 Craig A. Marks, PLC
21 10645 N. Tatum Blvd.
Suite 200-676
22 Phoenix, AZ 85028
Craig.Marks@azbar.org
Attorney for ALECA

23 Michael M. Grant
24 Gallagher & Kennedy
25 2575 East Camelback Road
Phoenix, AZ 85016
26 mmg@gknet.com
Attorneys for AT&T

Isabelle Salgado
AT&T Nevada
645 E. Plumb Lane, B132
P.O. Box 11010
Reno, NV 89520
dan.foley@att.com
gcl831@att.com

Joan S. Burke
Osborn Maledon, PA
2929 North Central Avenue,
Suite 2100
Phoenix, AZ 85012
iburke@omlaw.com
Attorneys for Time Warner Telecom
Attorneys for XO Communications

Lyndall Nipps
Vice President, Regulatory
Time Warner Telcom
845 Camino Sur
Palm Springs, CA 92262
Lyndall.Nipps@twtelecom.com

Dennis D. Ahlers
Associate General Counsel
Eschelon Telecom, Inc.
730 Second Avenue, Suite 900
Minneapolis, MN 55402
Attorneys for Eschelon Telecom, Inc.
Attorneys for Integra Telecom, Inc.
ddahlers@eschelon.com

1 Thomas Campbell
2 Michael Hallam
3 Lewis and Roca LLP
4 40 North Central
5 Phoenix , Arizona 85004
6 tcampbell@lrlaw.com
7 mhallam@lrlaw.com
8 Attorneys for Verizon
9
10 Rex Knowles
11 Executive Director — Regulatory
12 XO Communications, Suite 1000
13 111 E. Broadway
14 Salt Lake City, UT 84111
15 Rex.knowles@xo.com
16
17 Charles H. Carrathers, III
18 General Counsel, South Central Region
19 Verizon, Inc.
20 HQE03H52
21 600 Hidden Ridge
22 Irving, Texas 75015-2092
23 chuck.carrathers@verizon.com
24
25 Thomas W. Bade, President
26 Arizona Dialtone, Inc.
27 717 W. Oakland St.
Chandler, Arizona 85226
Tombade@arizonadialtone.com
Brad VanLeur, President
OrbitCom, Inc.
1701 N. Louise Ave.
Sioux Falls, SD 57107
bvanleur@svtv.com
Karen E. Nally
Moyes Sellers & Sims, Ltd.
1850 North Central Ave, Ste 1100
Phoenix, Arizona 85004
kenally@lawms.com
garyj@nationalbrands.com

Nathan Glazier
Regional Manager
Alltel Communications, Inc.
4805 E. Thistle Landing Dr.
Phoenix, Arizona 85044
Nathan.glazier@alltel.com

Mark A. DiNunzio
Cox Arizona Telcom, LLC
1550 West Deer Valley Road
MS DV3-16, Bldg C
Phoenix, AZ 85027
mark.dinunzio@cox.com

William A. Haas
Deputy General Counsel
McLeodUSA Telecommunications Services,
Inc.
6400 C. Street SW
Cedar Rapids, Iowa 52406
Bill.Haas@mcleodusa.com

Chris Rossie
President, Local 7019
Communication Workers of America
11070 North 24th Avenue
Phoenix, Arizona 85029

Greg L. Rogers
Senior Corporate Counsel
Level 3 Communications, LLC
1025 Eldorado Boulevard
Broomfield, Colorado 80021

Jane Rodda, Esq.
Utilities Division
Arizona Corporation Commission
400 West Congress
Tucson, Arizona 85701

ROSHKA DeWULF & PATTEN, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

1 Ms. Janice Alward, Esq.
2 Chief Counsel
3 Legal Division
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

Ernest G. Johnson, Esq.
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

By

